

LWBJ Final Report Update
July 20, 2010

Attached to this document is an overview of the procedures and findings of work performed by LWBJ Capital Advisors, LLC. ("LWBJ"), which were presented on May 12, 2010 to the Iowa Association of School Boards ("IASB") Board of Directors ("Board"). The report also documents the various meetings between LWBJ and IASB from the initial engagement date of February 4, 2010.

Since the May 12, 2010 meeting, LWBJ has had limited involvement with IASB, but recently met with IASB management to discuss the actions taken, or being taken, to address matters raised by LWBJ. Below are the items that IASB management has represented have been completed, or are in process of being completed.

1. BOARD/MANAGEMENT ACTIONS

- a. The former Finance Director was hired as an independent contractor and has been on site since March 2010 to bring legacy knowledge of financial information back to IASB.
- b. All IASB and related entity programs and services are being reviewed for relevancy, solvency and participation by management and the Board.
- c. IASB's Board has tightened controls and oversight over cash transfers and disbursements.
- d. IASB's Board approved the rescinding of the termination of IASB's pension plan.
- e. Increased communication and documentation regarding IASB and Local Government Services ("LGS") Boards' review and approval of programs, personnel matters and other management actions has been put in place.
- f. IASB's Board and management reviewed the safety group program, and its permitted uses, and decided to pay the participating schools' dividends earlier than in the past.
- g. A 2011 budget for the consolidated IASB group was prepared by management and approved by the IASB Board at its July 14, 2010, meeting.
- h. The interim Chief Financial Officer was hired and his contract approved by the IASB Board at its July 14, 2010, meeting.

2. INTERNAL PROCESSES

- a. The June 30, 2009, audit was completed and reports issued.
- b. The State Auditor's office is reviewing the June 30, 2009, audit report and work papers.
- c. The financial statements and account reconciliations are being completed on a timely basis..
- d. The PaySchools reconciliation of activity has been completed and deposits are now net of fees vs. gross formerly.
- e. PaySchools processing has transitioned to a new merchant provider in June 2010 and management is continuing its review of the program as described in the process in 1.b. above.
- f. The excess draw-down on the Skills Iowa federal grant was repaid to the government.
- g. Former fee issues with ISCAP and affected vendors have been resolved and settled.
- h. IASB and LGS are current on billings and collections of fees.
- i. Cash forecasting continues to be a priority for IASB and LGS.

LWBJ Final Report Update
July 20, 2010

- j. Management continues to work with US Bank and outside auditors on mortgage covenant issues.
- k. Management also continues to work with ISEBA on the payback of unauthorized funds transferred to IASB and LGS.
- l. All tenant agreements with LGS are in the process of being updated with counsel's assistance.

LWBJ's forensic procedures concentrated in the areas of cash transfers to/from IASB and LGS with each other and with other entities and on vendor and consulting payments and relationships. The findings from these procedures are presented in the attached report.

LWBJ Capital Advisors, LLC Report to Board of Directors
Procedures and Findings of Work performed at IASB and LGS
May 12, 2010

LWBJ was engaged on February 4, 2010 by Maxine Kilcrease and the members of the Executive Committee of the Board through a signed engagement letter for the following items related to IASB and its affiliates:

Services – The client has summarized the following financial management tasks which it needs to complete. As part of its services, LWBJ will, if requested by the client, assist client in completing the following:

- (a) Determine financial position of client*
 - a. Issue Brooks Lodden, P.C.'s audit of the client's June 30, 2009 financial statements*
 - b. Update financial reporting systems and prepare financial statements through December 31, 2009 and January 31, 2010*
 - 1. Complete bank reconciliations and thoroughly review reconciling items*
 - 2. Update Great Plains accounting system*
- (b) Address concerns of financial irregularities, misappropriation of assets and mistrust*
 - a. Identify possible issues*
 - b. Address each item and design necessary plan to resolve issues*
 - c. Report results and resolution to Executive Committee and Board*
 - d. Incorporate State Auditor as needed*
- (c) Assist with the financial "go forward" strategy of the client.*
 - a. Assist with current needs and help in recruitment of new CFO*
 - b. Review current internal controls and policies and procedures, and prepare recommendations for improvement*
 - c. Review conversion plans from Great Plains to MAS 200 and make recommendations*

In addition, LWBJ was engaged on February 4, 2010 by Maxine Kilcrease and the Executive Committee of the Board through a signed engagement letter for these additional services as related to the PaySchools Program. That subject is covered under a separate final report.

LWBJ work began at IASB/LGS on February 8, 2010. Three senior people reviewed as much information as possible during the next seven business days. This review covered items from the last date of IASB audited consolidated financial statements June 30, 2008 since financial transactions prior to that would have been subject to outside audit procedures and review. This included review of:

- General Ledger transactions
- History of the safety group funds
- Bank statements
- Board of directors' bylaws and minutes
- Letter/notes from former board member regarding concerns at IASB
- Company credit card transactions

LWBJ Capital Advisors, LLC Report to Board of Directors
Procedures and Findings of Work performed at IASB and LGS
May 12, 2010

- Last documented accounting policies/procedures.
- State and federal grant applications

LWBJ met with outside auditing firm personnel on February 13, 2010 to get an update on the status of the 6/30/2009 audit of IASB. At this meeting, LWBJ received a timeline of the auditors' communications and requests of IASB and a listing of outstanding requests needed to complete the FY09 audit.

Initial findings were presented to the Executive Committee of the Board and the IASB Executive Council on February 17, 2010. This overview included:

- A preliminary assessment that some of the prior years' business decisions have and are proving to be unprofitable.
- Customary approval processes missing for cash transfers from IASB to LGS.
- Concern that cash not belonging to IASB has been used in IASB operations.
- IASB and related entities face serious short term solvency issues largely arising from shortfalls in expected revenues caused by the current interest rate environment.
- Recent alleged reported events with the recently-terminated CFO, the complexity of programs, and the lack of any business institutional knowledge raise suspicion of possible accounting irregularities and misappropriation of assets
- June 30, 2009 audit needs to be completed and year-to-date financial reporting begun.
- Current finance management does not know how to obtain the needed financial reports from the accounting software. Therefore, no financial information related to operations in fiscal year 2010 to date had been generated.
- Members of the IASB Board of Directors are on multiple boards of related entities causing fiduciary role concerns. There is no evidence of an active and engaged Board finance committee for IASB. Customary board oversight and approval processes were not evident.

Proposed action items from February 17, 2010 meeting:

- Form internal finance committee of management and the Board to work with LWBJ.
 - Develop go-forward alternatives and communicate with outside parties such as banks and other financial parties.
 - Work with Finance Staff to get outside auditors information needed to complete the 6/30/09 audit and bring the 2010 financial statements up-to-date. Get extensions where needed on financial reporting requirements.

LWBJ Capital Advisors, LLC Report to Board of Directors
Procedures and Findings of Work performed at IASB and LGS
May 12, 2010

- Review financial reporting system. Bring out LWBJ personnel with expertise in the accounting software system.
- Cooperate fully and openly with the state auditor's office on issues, concerns and findings.
- Address CEO concerns of financial irregularities, misappropriation of assets and mistrust.
- Develop plan to address near-term solvency concerns.
- Review PaySchools program, prepare separate detailed financial statements for the program to determine whether it is profitable and identify options for the program going-forward.

LWBJ also met with the IASB Executive Council and members of the Executive Committee of the Board as requested on various matters during the month of February.

During the remainder of February and in March, forensic procedures were performed and highlights included the following – again focusing on the period since the last outside audit – July 1, 2008 through December 31, 2009:

- Detailed review of IASB and LGS cash payments and receipts for all bank accounts including intercompany transfers, ACH debits and credits, vendor payments, deposits, wire transfers, company credit card charges, bank fees assessed and payroll payments.
- Detailed review of IASB and LGS bank account reconciliations.
- Detailed review of IASB and LGS revenues and expenditures posted to the general ledger along with supporting documentation. This included capitalized expenditures, vendor consulting payments, professional fees, and payroll registers.
- Review of support for state and federal grants.
- Review of all significant vendor contracts and agreements including all sub-rent agreements.
- Review of certain whistle-blower reports that had been filed.

Significant findings included:

- Cash transfers between entities were not regularly subject to either board's approval. Limited instances noted where board approval was given. \$500,000 transfer from ISEBA to IASB/LGS in December 2009 appears unauthorized by either board or CEO.
- Investments in new programs and initiatives do not appear to have adequately been explained and updates over time given to the Board to keep them knowledgeable.

LWBJ Capital Advisors, LLC Report to Board of Directors
Procedures and Findings of Work performed at IASB and LGS
May 12, 2010

- Kevin Schick used the company credit card for personal use of approximately \$10,000.
- Approximately \$500,000 in Skill Iowa grant withdrawals does not appear to be supportable.
- Approval of Maxine's and executive council retroactive changes in pay not were approved by the Board nor did the Board (per policy) have any insight into non-CEO employee pay.
- No Board approval of dollars related to non-qualified retirement grant or large severance payment to former employee – approval appears to have been made on the concepts.
- Management and most of the Board members did not have adequate knowledge about the use by IASB of funds in the safety group bank account and the non-cash fund balance in the premium stabilization reserve fund. The Board has reviewed the use of safety group funds by IASB and the balance in the premium stabilization reserve fund for the past several years. The non-cash premium stabilization reserve fund balance consists of investments of program and property.
- Certain investments reflected as assets on the financial records are questionable and need to be considered for impairment as of June 30, 2009.
- Since August 2009, financial records were not being kept up-to-date with primarily payroll and accounts payable payments and accounts receivable receipts the only items being kept current. This coincided with the Finance Director's termination. Bank accounts were not being reconciled. Internal controls over financial reporting not functioning as documented or intended.
- No legacy knowledge of financial records, systems or processes in the organization after the Finance Director was terminated in September 2009. Recommend that the former Finance Director be engaged on at least a project basis in order to get FY09 audit completed and financial records up-to-date.
- Apparent inadequate financial management/oversight currently of staff, vendors and programs.
- Inconsistent billing of administration and sponsorship fees and timely collection of other fees and amounts paid on behalf of affiliated organizations since August 2009.
- Unknown status of termination of pension plan which started in August 2008.
- Only limited reconciliation of the PaySchools activity had ever been completed since the inception of the program and none at all since sometime in fiscal 2009. IASB appears to withdraw funds from PaySchools on a gross basis vs. net basis and as a result may possibly be using others' funds on a short-term basis. Again, the former Finance Director

LWBJ Capital Advisors, LLC Report to Board of Directors
Procedures and Findings of Work performed at IASB and LGS
May 12, 2010

is needed to complete the program reconciliation as she is the only person knowledgeable for this task.

- VISA merchant account issues with PaySchools program need to be resolved. Also, National PaySchools needs to be informed of outstanding issues.
- Fee issues (question of whether the fees were deferred or waived and what fees are now owed) were reported by a third party with regards to the ISCAP program.
- Meeting with the state auditor's office provided some new information including the possibility that the I-JUMP program and the interest rate swap agreement may not be permissible activities. The I-JUMP program was sold in 2008.

LWBJ proposed action items from March 10, 2010 Board meeting:

- Work with Finance staff to complete information request from outside auditors to complete 6/30/09 audit.
- Work with Finance staff to update financial statements through February 28, 2010.
- Identify fees and reimbursable expenses owed to IASB/LGS for short-term cash flow needs. Get current on monies owed to IASB/LGS.
- Determine Skills Iowa grant payback.
- Make a recommendation on action needed to be taken on the termination of the pension plan – follow up with plan administrator regarding option
- Recommend options for a work-out plan and identify cash requirements to meet payable and payroll needs.

Other requests were made to LWBJ personnel throughout March for the following:

- Obtain extensions from governmental authorities on the filing of the FY09 audit
- Speak to state and federal government regarding Skills Iowa drawdown taken in error.
- Respond to information requests from attorneys, interim director, staff and Board members.
- Provide information and review press releases and other written communications when asked.
- Provide oversight of financial staff. Included were review of invoices and cash transactions, identification of outstanding revenue billings and prepare certain financial analyses. Establish revenue matrix to ensure billings remain up-to-date.

LWBJ Capital Advisors, LLC Report to Board of Directors
Procedures and Findings of Work performed at IASB and LGS
May 12, 2010

- Prepare account reconciliations for LGS bank accounts to bring current.
- Meet with FBI and DCI at their request.
- Prepare preliminary 2011 cash flow projection.
- LWBJ was contacted by an Iowa-based business owner with concerns about the playground arrangement IASB had with a vendor. This business owner was referred to outside counsel for IASB.
- Meet with U.S. Bank related to mortgage covenant issue.
- Meet with Eric Waters, CEO of ISEBA regarding improper cash transfer from their account to IASB and LGS.

At the March 25, 2010 IASB Board meeting, LWBJ gave updates:

- Recommended rescinding of pension plan termination – plan administrator to present cost and process at the next Board meeting.
- Identified short-term cash plan for management and Board, working to get current on all past due invoices and monies owed employees.
- Status of 6/30/09 audit – slow progress being made.
- Current year financial statements – identification of material missing transactions had been made – progress slow due to multitude of requests being made for information from Finance staff and former Finance Director now on site.
- Need for immediate determination of the repayment plan for grant \$ and improper withdrawal of funds from ISEBA.
- Need to resolve outstanding issues with current sublease, ISCAP fees and ISEBA contract.
- Discussed preliminary 2011 financial projections.
- Recommended that new policies and procedures be identified and implemented for Board and/or Finance Committee oversight of financial transactions – check payments, wire transfers, billings.
- Recommended organizational review of all programs and affiliations ensuring alignment with strategic goals of the organization.
- LWBJ ready to transition out – work has become redundant in some areas between law firm, investigative firm and outside auditors. Further, some areas initially being worked on by LWBJ, responsibilities had been assumed by other parties.

LWBJ Capital Advisors, LLC Report to Board of Directors
Procedures and Findings of Work performed at IASB and LGS
May 12, 2010

LWBJ's role going forward was modified as follows – to be charged on an hourly basis with attention being made to limit the hours required:

- Continue to provide high-level financial management oversight to former Finance Director (now working to assist IASB) and the IASB Controller.
- Provide detailed invoice review and approval prior to Board and interim CEO approval.
- Provide program-based 2011 preliminary financial projection.
- Complete outstanding follow up items –
 - Significant IASB/LGS vendor follow up and inquiries regarding dealings with IASB/LGS past and present.
 - Rescinding of pension plan termination.
 - Outside audit requests.
 - FY2010 year-to-date financial statements.

At the IASB Board meeting on April 20, 2010:

- Representatives from the pension plan administration team of advisors met with the Board to explain steps and ramifications of rescinding the termination of the pension plan.

LWBJ provided:

- A status of outstanding items for the external auditors. Certain decisions/approvals were requested from the Board in order to complete certain auditor requests. These primarily involved the discussion of possible impairment of certain assets recorded on the financial records.
- A status of updated financial statements through March 31, 2010. These were anticipated to be completed by May 1, 2010 barring further extensive information requests being given to the Finance staff.
- An overview of historical dividends and sponsorship fees of the safety group.
- A report of the Skills Iowa repayment to the federal government.
- Preliminary fiscal year 2011 financial projections – estimated that certain proceeds related to the sale of the I-JUMP program (currently held in a saving account) will be needed along with an adequate level of membership renewal to meet projected cash needs for fiscal 2011.
- Resumes of possible interim CFO candidates to the interim search committee.

LWBJ Capital Advisors, LLC Report to Board of Directors
Procedures and Findings of Work performed at IASB and LGS
May 12, 2010

- An update on discussions with IASB/LGS largest vendors – consultants, professional services firms, and contractors. No inappropriate payments, requests, business dealings, nor actions by any IASB or LGS staff were reported. The only applied pressure on vendors was reported to be required presence at the IASB annual convention.

Work continues to be provided on an as-needed basis primarily in an oversight role to Finance Staff, Board reporting and responding to interim management requests.

In conclusion, LWBJ noted instances where other entity's monies were used by IASB/LGS without board or CEO knowledge or approval. In the case of ISEBA and ICSBA, however, the persons who authorized and executed the transfers were authorized to do so by IASB and documents supplied to the financial institution. In the case of PaySchools, the issue of using others' funds has still not been resolved. In many cases, it appears as if prior executive and financial management were given the authority to act autonomously with some documentation of communicating issues to the Board but not always full disclosure of certain aspects or concerns and dollar effects of decisions and actions.

Extensive review of vendor relationships was performed through invoice examination and personal interviews. No evidence of improper incentive payments was uncovered.

Forensic procedures were conducted using agreed-upon procedures in terms of scope and quantity. Additional findings may have occurred if other procedures were performed.

The former Finance Director continues to work with IASB and its affiliated entities on a project basis. However, adequate financial management oversight of programs, investments, vendors and staff needs to become a priority for the organization on a more permanent basis. LWBJ can assist in interviewing and assessing potential candidates for this position and recommending staffing of the Finance area.

Internal controls over financial reporting need to be reviewed and enhanced to increase visibility of possible issues as early as possible to the CEO and the Board of directors. Processes need to be implemented to improve transparency and accountability of various programs and investments with continuous assessment vs. expected results. An active and knowledgeable Board Finance Committee is essential for adequate oversight of the agency and its relationships with affiliated entities.